

International Economics Development Economics

Academic year 2019-2020

Macroeconomic Topics for Emerging Economies

EI078 - Printemps - 6 ECTS

Wednesday 10h15 - 12h00

Course Description

This course builds on the first year macroeconomics sequence and focuses on issues of particular interest for emerging economies.

We start by presenting the patterns of international capital flows and the substantial changes that occurred over the last ten years. We then review the analytical frameworks of international macroeconomic policy and balance of payments and financial crises.

The class then considers the policies available for managing capital flows, as well as the experience with them. A particular focus is put on the impact of the global financial cycle, reserve accumulation, capital controls, and macroprudential policy.

Students are expected to be familiar with the building blocks of international macroeconomic models. The evaluation will be based on a midterm exam (35 % of grade), a final exam (35 %) and a paper (30 %). The paper will be a review (6-7 pages) of a specific topic covered in the class, presenting the issue, the state of research, and open questions. Students will have to select the topic of the paper by the midterm, and turn in the paper by the end of the course.

> PROFESSOR

[Cédric Tille](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

The course will rely on 2 books, along with a selected serie of papers (papers marked with a * are mandatory and are on the class Moodle page, the others are optional):

Carlos Vegh, *Open Economy Macroeconomics in Developing Countries*, MIT Press 1st edition.

This book provides an extensive coverage of modelling of open economy macro.

Atish Ghosh, Jonathan Ostry, and Mahvash Qureshi, *Taming the Tide of Capital Flows*, MIT Press 1st edition (hereinafter GOQ).

This book covers the evidence on capital flows and policy with an empirical focus.

1. International capital flows: evidence

1.1. Patterns before and since the crisis (class 1)

GOQ chapter 1 and 2

Avdjiev, Stefan, Brian Hardy, Sebnem-Kalemli-Ozcan, and Luis Serven (2017). "Gross Capital Inflows to Banks, Corporates and Sovereigns", NBER working paper 23116.

<http://www.nber.org/papers/w23116>

* Bussière, Matthieu, Julia Schmidt, and Natacha Valla (2016). "International Financial Flows in the New Normal: Key Patterns (and Why We Should Care)", CEPII Policy Brief no 10.

http://www.cepii.fr/PDF_PUB/pb/2016/pb2016-10.pdf

IMF (2016). "Understanding the Slowdown in Capital Flows to Emerging Markets", *World Economic Outlook* chapter 2.

<http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/c2.pdf>

* Lane, Philip, and Gian-Maria Milesi-Ferretti (2018). "International Financial Integration in the Aftermath of the Global Financial Crisis", *IMF Economic Review* 66(1), pp. 189-222.

<https://link.springer.com/article/10.1057/s41308-017-0048-y>

Milesi-Ferretti, Gian-Maria, and Cédric Tille (2011). "The great retrenchment: international capital flows during the global financial crisis", *Economic Policy* 66, pp. 287-342.

<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0327.2011.00263.x/abstract>

1.2. Large movements (class 1)

GOQ chapter 3 and 4

* Forbes, Kristin, and Francis Warnock (2011). "Capital Flow Waves: Surges, Stops, Flight, and Retrenchment", NBER working paper 17351.

<http://www.nber.org/papers/17351>

* Koepke, Robin (2019). "What drives Capital Flows to Emerging Markets: A Survey of the Empirical Literature", *Journal of Economic Surveys* 33(2), pp. 516-540.

<https://onlinelibrary.wiley.com/doi/epdf/10.1111/joes.12273>

2. Review of international macroeconomics frameworks: fiscal policy, inflation, and exchange rate regimes

2.1. Fiscal policy, and dealing with high inflation (class 2)

Vegh chapter 10 (sections 10.1-10.6), and chapter 13 (sections 13-13.4, 13.5.1, 13.5.3, 13.6.2).

IMF (2018). "Challenges for Monetary Policy in Emerging Economies as Global Financial Conditions Normalize", *World Economic Outlook* chapter 3.

<https://www.imf.org/~media/Files/Publications/WEO/2018/October/English/c3.ashx?la=en>

2.2. Choice of exchange rate regime (class 3)

Vegh chapter 11 (sections 11.1-11.2 and 11.4-11.5)

3. Capital flows and crises: analytical frameworks

3.1. Impact of capital flows cycles (class 4)

Vegh chapter 14 (sections 14.1-14.4).

3.2. Balance of payments and financial crises (class 4)

Vegh chapter 16 (sections 16.2-16.4), and chapter 17 (sections 17.1-17.2, 17.7).

4. Managing capital flows: frameworks

4.1. Analytical framework (class 5)

GOQ chapter 5 and 6

Mimira, Yasin, and Enes Sunel (2019). "External Shocks, Banks, and Optimal Monetary Policy: A Recipe for Emerging Market Central Banks", *International Journal of Central Banking* pp. 235-299.
<https://www.ijcb.org/journal/ijcb19q2a7.pdf>

4.2. Balance sheet exposure and pecuniary externality (class 6)

GOQ chapter 7 (7.1-7.3)

* Aguiar, mark, and Gita Gopinath (2005). "Fire-Sale Foreign Direct Investment and Liquidity Crises", *Review of Economics and Statistics* 87(3), pp. 439-452.
<https://www.mitpressjournals.org/doi/pdf/10.1162/0034653054638319>

Cesa-Bianchi, Ambrogio, Andrea Ferrero, and Alessandro Rebucci (2017). "International Credit Supply Shocks", NBER working paper 23841.
<http://www.nber.org/papers/w23841>

* Korinek, Anton (2018) "Regulating capital flows to emerging markets: An externality view" *Journal of International Economics* 111, pp. 61-80.
<https://www.sciencedirect.com/science/article/pii/S0022199617301472>

Engel, Charles, and Jungjae Park (2018). "Debauchery and Original Sin: The Currency Composition of Sovereign Debt," NBER Working Papers 24671.
<http://www.nber.org/papers/24671>

* Hausmann Ricardo, and Ugo Panizza (2011). "Redemption or Abstinence? Original Sin, Currency Mismatches and Counter Cyclical Policies in the New Millennium" *Journal of Globalization and Development* 2(1), pp. 1-35.
<https://www.degruyter.com/downloadpdf/j/jgd.2011.2.issue-1/jgd.2011.2.1.1127/jgd.2011.2.1.1127.xml>

Mendoza, Enrique, and Marco Terrones (2012). "An Anatomy of Credit Booms and their Demise", NBER working paper 18379
<http://www.nber.org/papers/w18379>

4.3. Global financial cycle and the "trilemma" (class 7)

Aizenman, Joshua, Menzie Chinn, and Hiro Ito (2015). "Monetary Policy Spillovers and the Trilemma in the New Normal: Periphery Country Sensitivity to Core Country Conditions" NBER working paper 21128.
<http://www.nber.org/papers/w21128>
http://web.pdx.edu/~ito/trilemma_indexes.htm

* Chinn, Menzie (2015). "Navigating the trilemma in a financially integrated world: challenges for policy makers", in proceedings of BCC third annual conference *Exchange Rate Policy: Limits to Flexibility, Capital Controls, and Reserve Management*, pp. 15-51.
<http://graduateinstitute.ch/files/live/sites/iheid/files/sites/bcc/shared/docs/BCC%203th%20Annual%20Conference%20proceedings.pdf>

Cerutti, Eugenio, Stijn Claessens, and Andrew Rose (2017). "How Important is the Global Financial Cycle? Evidence from Capital Flows," CEPR Discussion Papers 12075, C
http://www.cepr.org/active/publications/discussion_papers/dp.php?dpno=12075

* Klein, Michael, and Jay Shambaugh (2013). "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy", NBER working paper 19461.
<http://www.nber.org/papers/19461>

* Rey, Hélène (2013). "Cross-Border Capital Flows", paper presented at the 2013 Jackson Hole Symposium.
<http://www.kc.frb.org/publicat/sympos/2013/2013Rey.pdf>

Scheubel, Beatrice, Livio Stracca, and Cédric Tille (2019). "The Global Financial Cycle and Capital Flow Episodes: a Wobbly Link?", European Central Bank working paper 2337.
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2337~3c88ced5a7.en.pdf>

5. Managing capital flows: tools

5.1. Macroprudential policy (class 8)

GOQ chapter 7 (7.4-7.5)

* Alam, Zohair, Adrian Alter, Jesse Eisenman, Gaston Gelos, Heedon Kang, Machiko Narity, Elend Nier, and Naixi Wang (2019). "Digging Deeper – Evidence on the Effects of Macroprudential Policies from a New Database", IMF Working Papers 19/66.

<https://www.imf.org/en/Publications/WP/Issues/2019/03/22/Digging-Deeper-Evidence-on-the-Effects-of-Macroprudential-Policies-from-a-New-Database-46658>

* Cerutti, Eugenio, Stijn Claessens, and Luc Laeven (2017). "The use and effectiveness of macroprudential policies: New Evidence", *Journal of Financial Stability* 28, pp. 203-224.

<https://www.sciencedirect.com/science/article/pii/S1572308915001035>

Cerutti, Eugenio, Ricardo Correa, Elisabetta Fiorentino, and Esther Segalla (2017). "Changes in Prudential Policy Instruments - A New Cross-Country Database", *International Journal of Central Banking*, 13(1) pp. 477-503.

<http://www.ijcb.org/journal/ijcb17q1a17.htm>

* Galati, Gabriele, and Richhild Moessner (2017). "Macroprudential policy: state of the art, and ways forward", keynote address at the BCC 5th annual conference, Geneva.

http://graduateinstitute.ch/files/live/sites/iheid/files/sites/bcc/shared/docs/Keynote%20lecture_BCC%20conference_Graduate%20Institute%20Geneva_2017.pdf

* International Monetary Fund (2017). "Increasing Resilience to Large and Volatile Capital Flows—The Role of Macroprudential Policies", IMF policy paper.

<http://www.imf.org/-/media/Files/Publications/PP/2017/pp060217-increasing-resilience-to-large-and-volatile-capital-flows.ashx>

5.2. Semi-open economies (class 9)

* Choi, Woo Jin, and Alan Taylor (2018). "Precaution versus Mercantilism: Reserve Accumulation, Capital Controls and the Real Exchange Rate" mimeo.

https://www.google.com/url?q=https%3A%2F%2Fwww.dropbox.com%2Fs%2Fr6u83cnu778eqdn%2FCT_text_Se p2018.pdf%3Fdl%3D0&sa=D&sz=1&usg=AFQjCNEdgtmw7Cdmy0Hdfx353WOis3xqWA

* Bacchetta, Philippe, Kenza Benhima, and Yannick Kalantzis (2014). "Optimal Exchange Rate Policy in a Growing Semi-Open Economy", *IMF Economic Review* 62, pp. 48-76.

<http://www.palgrave-journals.com/imfer/journal/v62/n1/pdf/imfer20146a.pdf>

Jeanne, Olivier (2012). "Capital Account Policies and the Real Exchange Rate", NBER working paper 18404

<http://www.nber.org/papers/w18404>

5.3. Exchange rate reserves and capital controls (class 10)

* Aizenman, Joshua, Martin Bijsterbosch, Matteo Falagiarda, and Gurnain Pasricha (2015). "Domestic and Multilateral Effects of Capital Controls in Emerging Markets Policy" NBER Working Paper No. 20822.

<http://www.nber.org/papers/w20822>

Aizenman, Joshua, Yin-Wong Cheung, and Hiro Ito (2014). "International Reserves Before and After the Global Crisis: Is There No End to Hoarding?" NBER Working Paper No. 20386.

<http://www.nber.org/papers/w20386>

Alberola, Enrique, Aitor Erce, and José Maria Serena (2015). "International Reserves and Gross Capital Flows Dynamics", *Journal of International Money and Finance* 60, pp. 151-171

<https://www.sciencedirect.com/science/article/pii/S0261560615001527>

* Fratzscher, Marcel, Oliver Gloede, Lukas Menkhoff, Lucio Sarno, and Tobias Stöhr (2017). "When is foreign exchange intervention effective? Evidence from 33 countries", CEPR discussion paper 12510.

www.cepr.org/active/publications/discussion_papers/dp.php?dpno=12510

Forbes, Kristin, Marcel Fratzscher, and Roland Straub (2014). "Capital Controls and Macroprudential Measures: What Are They Good For?", MIT Sloan Research Paper No. 5061-13.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2364486

* Ghosh, Atish, Jonathan Ostry, and Charalambos Tsangarides (2017). "Shifting Motives: Explaining the Buildup in Official Reserves in Emerging Markets Since the 1980s", *IMF Economic Review* 65(3), pp. 308-364.

<https://link.springer.com/content/pdf/10.1057%2Fs41308-016-0003-3.pdf>

Pasricha, Gurnain (2017) "Policy Rules for Capital Controls", Bank of Canada Staff Working Paper 2017-42.

<https://www.bankofcanada.ca/2017/10/staff-working-paper-2017-42/>

6. Policy actions, effectiveness, and prospects

6.1. What do policy makers do? Does it work? (class 11)

GOQ chapter 8 and 9

Scheubel, Beatrice, Livio Stracca, and Cédric Tille (2019). "Taming the global financial cycle: What role for the global financial safety net?", *Journal of International Money and Finance* 94, pp. 160-182.

<https://www.sciencedirect.com/science/article/pii/S0261560619300580/pdf?md5=d1d9566b9259449c2aa5843d758d2ec7&pid=1-s2.0-S0261560619300580-main.pdf>

6.2. Multilateral dimension, and open questions (class 12)

GOQ chapter 10 and 11

* Agénor, Pierre-Richard, and Luiz-Awazu Pereira da Silva (2019). "Global Banking, Financial Spillovers, and Macroprudential Policy Coordination", BIS working paper 764.

<https://www.bis.org/publ/work764.pdf>

* Gelos, Gaston, Lucyna Gornicka, Robin Kopke, Ratna Sahay, and Silvia Sgherri (2019). "Capital Flows at Risk: Taming the Ebbs and Flows", IMF working paper 19/279.

<https://www.imf.org/~media/Files/Publications/WP/2019/wpia2019279-print-pdf.ashx>